

This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS SECTION 01 OF 02 KUWAIT 001878

SIPDIS

SENSITIVE

E.O. 12958: N/A

TAGS: [ECON](#) [EFIN](#) [EINV](#) [PINR](#) [KU](#)

SUBJECT: GULF INVESTMENT CORP: A GCC INVESTMENT POWERHOUSE

This cable is sensitive but unclassified; please protect accordingly. Not for Internet distribution.

1. (U) Summary: Ambassador met May 3 with executives of the Gulf Investment Corporation and heard how this GCC-funded institution is changing its focus from simply encouraging private enterprise in the Gulf to providing financial research, investment advice and consulting throughout the region. It hopes to become the "Merrill Lynch of the region," the CEO said, by leveraging its experience to help the increasing number of foreign companies looking to invest in the Gulf. Of the GIC's \$7 billion in assets, \$2 billion is invested in the GCC countries and the remaining \$5 billion is invested outside of the GCC. It has introduced the first GCC-wide equity fund, which it is marketing to large institutional clients, and it also publishes a wealth of research on GCC government budgets, macroeconomic data, sector indices and stock market research reports. End Summary.

GIC: History and Background  
-----

2. (U) Ambassador met May 3 with Gulf Investment Corporation (GIC) CEO Hisham Al-Razzuqi and Head of Manufacturing Projects Khalid Al-Qadeeri. GIC was established in 1984 by the GCC to provide financial services and investment support for the development of private enterprise and economic growth in the Gulf. It was one of the first GCC institutions, according to Al-Razzuqi, and received equal initial funding from the six GCC countries. It is headquartered in Kuwait. GIC has 145 employees, 53% of them GCC nationals. Al-Razzuqi said that GIC does its best to find people in the local market and then train them.

3. (U) The GIC now has close to \$7 billion in assets, \$2 billion invested in the GCC countries and the remaining \$5 billion invested elsewhere. Its GCC investments are mostly through equity participation in, or direct ownership of, industrial and manufacturing companies. Al-Razzuqi said that GIC currently has about \$400 million in exposure in U.S. private equities. According to Al-Razzuqi, GIC has always been conservative in its management decisions and its investments and has never had a loss on any of its investments. In its early years, GIC sought significant help from Citibank in its structuring and operations, and Al-Razzuqi said that the organizational setup and internal requirements are quite similar to Citibank's. (To learn more about Gulf Investment Corporation, see: <http://www.gic.com.kw>.)

New Directions: Financial Advisor and Investment Consultant  
-----

4. (SBU) Al-Razzuqi said that, based on its necessity to provide management and consulting advice to the companies in which it was investing, the GIC had developed significant expertise in a number of sectors over the past 24 years. The power and petrochemical sectors were its strongest areas, he said, but GIC has access to experts in a variety of industries. Its expertise is recognized now to the point that GCC governments are turning to GIC for advice and consulting on large projects and privatization efforts. Al-Razzuqi said that he sees his competition as international advisors and consultants and hopes to compete on that playing field.

5. (SBU) Saying that he wants to focus on GIC's strengths, Al-Razzuqi explained that GIC hires Merrill Lynch and others to manage its overseas investments, and that GIC focuses on building up its own expertise for the Gulf region. The company has introduced the first GCC-wide equity fund and is marketing it to large institutional clients. The minimum investment is \$250,000 and Al-Razzuqi said that Boston College had already invested in the fund. GIC has also introduced indices for the GCC by sector, which it publishes, as well as stock market research reports for public companies in the region. Al-Razzuqi said that many foreign companies are coming to GIC asking for research and for help with understanding where to invest in the GCC. He added that he would like to open up GIC offices elsewhere throughout the GCC to provide local financial and investment advisory services.

16. (SBU) Al-Razzuqi said that there was also a growing need to provide advice and guidance to the increasing number of family businesses in the region that were taking themselves public. Because the GCC banks don't have the ability to buy stakes in these businesses and cannot provide the necessary management consulting services, the GIC sees an important role for itself in this area. Finally, Al-Razzuqi said that GIC was conducting internal studies on risk management throughout the GCC but not yet publicly releasing this material, to its clients or its Board. Al-Razzuqi summed up GIC's new directions as saying that he wanted to make his organization the "Merrill Lynch of the region."

#### Corporate Governance

17. (SBU) Acknowledging that "real corporate governance is not applied throughout the GCC," Al-Razzuqi said that GIC was trying to set an example by having good corporate governance itself. It has commissioned Bain & Company to provide a study on corporate governance for GIC, and plans to work more on this issue in the future. Al-Razzuqi said that GIC always looks at the management of the company in the region as the critical step in evaluating any potential investment, particularly given the weakness of data available about most companies.

#### The Economic Outlook: Promising But Reforms Still Needed

18. (SBU) Al-Razzuqi said that GIC expects a lower growth rate in the U.S., around 3-3.5%, and "does not expect real appreciation" in its U.S. assets "anytime soon." He said that GIC expects to see an 8% return on all of its assets over the next year. He is seeing rapid growth in some stocks in the region, some of which he said are extremely overvalued. Overall, he said that the region's prospects are promising. With governments spending more on infrastructure development and large projects, and with Iraq no longer a threat to the region, he said that an increase in private investments was likely. "Nationals started believing in their own countries," he said, but added that economic reforms were still necessary throughout the Gulf.

\*\*\*\*\*

Visit Embassy Kuwait's Classified Website:

<http://www.state.sgov.gov/p/nea/kuwait/>

\*\*\*\*\*

LEBARON